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Cotton and Products

Annual Report

2009

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Report Highlights: Vietnam's cotton lint production declined sharply as farmers opted for crops with much better returns. Demand for cotton lint remained strong in MY 2007/2008, but weakened demand in the garment and textile industry has begun to impact demand for cotton imports, which are estimated to decline by 8% to 230 thousand metric tons for MY 2008/09. Even so, Vietnam's garment and textile exports for 2008 increased 17 percent to \$9.1 billion, and first quarter earnings for 2009 were only slightly down from those of the same period in 2008. Vietnam has been actively seeking out new markets, which has helped to keep its exports strong. U.S. cotton exports to Vietnam in 2008 increased a record 86% to 123 thousand metric tons, for a 42% market share, thus making the United States the largest single supplier for the second year running.

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SITUATION AND OUTLOOK

Vietnam's exports of garments and textiles soared to a record \$9.1 billion in 2008; a 17 percent increase above the record level of 2007. Market expansion into territories in Eastern Europe, South America and Taiwan largely accounts for this growth, even in the face of the global economic downturn. The United States remains, however, the largest market for Vietnam's garment and textile products and accounted for \$5.1 billion or 55.9 percent of total exports in 2008. First quarter (January-March) earnings for 2009 are estimated at \$1.9 billion, which is only slightly off from the same period in 2008. Vietnam has an earnings target of \$10.5 billion for 2009 and has been actively pursuing new markets in the Middle East and Africa.

Vietnam's cotton lint production continues to decline as farmers opt for crops with better returns. Output for the 2008/09 crop is estimated at 2.57 thousand metric ton, 56% less than the previous crop year, and just 1% of Vietnam's expected demand. Cotton imports for the first eight months of MY 2008/09 (August-March) was 151 tmt, which is 1.3% less than that of the same period the previous market year. A somewhat weakened demand for garment and textile products from the international market is beginning to affect Vietnam's demand for cotton. Post therefore revises the estimate for MY 2008/09 cotton imports down to 230 tmt. Notwithstanding this, U.S. cotton lint exports to Vietnam increased a record 86% in calendar year 2008 and accounted for 42.6% of the market, thus safeguarding the United States' place as the leading cotton supplier to Vietnam for the second year.

STATISTICAL TABLES

Table 1: Vietnam's Cotton Production, Supply and Demand

Cotton Vietnam	2007		2008		2009	
	2007/2008		2008/2009		2009/2010	
	Market Year Begin: Aug 2007		Market Year Begin: Jun 2008		Market Year Begin: Aug 2009	
	Annual Data Displayed	New Post	Annual Data Displayed	New Post	Annual Data Displayed	Jan
		Data		Data		Data
Area Planted	0	0	0	5		6
Area Harvested	13	13	13	5		6
Beginning Stocks	212	212	238	289		278
Production	26	26	28	11		13
Imports	950	1,101	1,050	1,012		1,050
MY Imports from U.S.	0	0	0	0		0
Total Supply	1,188	1,339	1,316	1,312		1,341
Exports	0	0	0	0		0
Use	950	1,050	1,050	1,034		1,056
Loss	0	0	0	0		0
Total Dom. Cons.	950	1,050	1,050	1,034		1,056
Ending Stocks	238	289	266	278		285
Total Distribution	1,188	1,339	1,316	1,312		1,341
Stock to Use %	25	28	25	27		27
Yield	435.	435.	469.	479.		472.
TS=TD		0		0		0

Source: FAS, Official USDA Estimates, post estimates

Table 2: Import Trade Matrix

Import Trade Matrix			
Country	Vietnam		
Commodity	Cotton		
Time Period	Jan-Dec	Units:	mt
Imports for:	2007		2008
U.S.	66713	U.S.	123970
Others		Others	
Africa	54454	India	51780
India	26790	Africa	47670
Mexico	15278	Brazil	17400
CIS	5509	Taiwan	7000
Brazil	5202	Indonesia	5030
Australia	1962	Pakistan	3530
Pakistan	1595	CIS	2000
China	3109	Korea	1500
Mexico	2751	Mexico	1060
Iran	1396	Australia	900
Total for Others	118046		137870
Others not Listed	26352		29510
Grand Total	211111		291350

Source: Vietnam Customs office, Traders & Post estimate

Table 3: Cotton Import Price Table

Prices Table			
Country	Vietnam		
Commodity	Cotton		
Prices in	\$US	per uom	mt
Year	2008	2009	% Change
Jan	1429	1385	-3%
Feb	1493	1336	-11%
Mar	1502	1200	-20%
Apr			
May			
Jun			
Jul			
Aug			
Sep			
Oct			
Nov			
Dec			
Exchange Rate	17786		
Date of Quote	4/9/2009		

Source: Vietnam Customs Office

PRODUCTION

Cotton production in Vietnam is highly susceptible to weather conditions. More than 90% of the cotton production area for the 2008/09 cotton crop is rain-fed, with planting initiated in the rainy season, June - August, and harvesting in November - January. In areas with irrigation, cotton may be planted in the dry season (November/December) allowing for harvesting from April through June. Irrigated cotton areas continue to decline in the face of strong competition for this resource from the more lucrative corn, beans and vegetable crops.

Table 4: Vietnam's cotton production by region, 2006 – 2008

Growing regions	2006			2007			2008		
	Areas 1000 ha	Yield mt/ha	Production tmt	Areas 1000 ha	Yield mt/ha	Production tmt	Areas 1000 ha	Yield mt/ha	Production tmt
Red River Delta	0.0	0.0	0.0	0.0	0.0	0.0	0.000	0.000	0.000
North East	0.3	0.8	0.2	0.3	0.7	0.2	0.264	1.200	0.317
North West	4.0	0.8	3.2	3.0	1.0	3.0	2.203	1.130	2.489
North Central Coasts	0.2	0.5	0.1	0.2	0.5	0.1	0.048	0.420	0.020
South Central Coast	2.0	2.0	4.0	2.4	1.7	4.1	0.899	2.290	2.059
Central Highland	8.3	1.6	13.1	3.6	1.4	4.9	0.778	1.280	0.996
South East	6.8	1.3	8.5	3.1	1.3	3.9	1.008	1.130	1.139
Mekong River Delta	0.0	0.0	0.0	0.0	0.0	0.0	0.010	0.060	0.001
Total Vietnam	21.6	1.3	29.2	12.5	1.3	16.1	5.210	1.348	7.021

Source: Ministry of Agriculture and Rural Development (MARD) and General Statistics Office (GSO)

Vietnam's 2008/09 Cotton Production

Vietnam's cotton production area for the 2008/09 crop was drastically reduced to 5.21 thousand hectare (tha), 56% less than the 2007/08 cotton crop. This is the second consecutive year of sharp reduction in the cotton production acreage, particularly in primary growing regions like the South Central Coast, the Tay Nguyen Central Highland and the South East. It is becoming increasingly more profitable to grow such crops as corn, sweet potatoes, soybeans and cassava than cotton. Post revises Vietnam's cotton production area in 2008/09 down to 5.21 tha from the earlier projection of 13 tha (Table 1).

The average yield for the 2008/09 cotton crop was 1.348 metric ton (mt)/ha of seed cotton, for an estimated production output of 7.033 tmt or 2.57 tmt of cotton lint at a ginning rate of 36.5 percent. (Table 5) Post revises Vietnam's 2008 cotton lint production to 2.57 tmt or 11.308 thousand bales.

Table 5: Vietnam's cotton production (2006-2009)

	2006/07	2007/08	2008/09	2009/10 (estimated)
Crop area (THA)	21.60	12.400	5.210	6.000
Crop yield (MT/HA)	1.34	1.30	1.35	1.35
Seed cotton production (TMT)	28.94	16.120	7.033	8.100
GOR	36.5	36.5	36.5	36.5
Cotton fiber production (TMT)	10.56	5.88	2.57	2.96

Source: GSO, VCC and Post estimate

Vietnam's 2009/10 Cotton Production

It is unlikely that Vietnam will see an expansion in cotton growing area in next cotton crop or even the foreseeable future, and the downward trend of the last two years seems likely to continue. Rising food prices will encourage farmers to switch to food crop production rather than growing cotton. Post therefore estimates Vietnam's cotton area in 2009/10 will increase only slightly to 6,000 tha, and the crop yield should remain at 1.35 mt/ha. The cotton lint production in the 2009/10 crop is estimated at 2.96 tmt or 13 thousand bales (Table 1)

PRICES

exchange rate \$1 = VND17,786 as of April 9, 2009

Domestic prices

The Vietnam Cotton Company (VCC) has been buying seed cotton at an average price of VND 9,000/kg (\$0.51/kg or \$0.23/lb). VCC is selling cotton to mills at \$1.20 - \$1.30/kg.

Import prices

Vietnam's Customs Department reports the average import price of cotton fiber for the first three months of 2009 was \$1.30/kg equivalent to 0.594 cents/lb, for a year-on-year decline of 14% as reflected in Table 6 below.

Table 6: Vietnam's average cotton import prices

Cotton fiber Prices	Jan-June 2005	Jan-June 2006	Jan-June 2007	Jan-April 2008	Jan-March 2009
\$/kg	1.1	1.18	1.21	1.49	1.30
cents/lb	0.499	0.535	0.562	0.676	0.594

Source: trade sources

Current indicative offer prices (US cent/lb - CIF Ho Chi Minh City Port) for cotton (quality equivalent to Strict Middling 1.1/8") from various sources are as follows: from West Africa: 0.566-0.585; from USA: 0.575-0.586 and from CIS countries: 0.588-0.598 per pound.

TRADE

In MY 2007/08, Vietnam imported over 250 thousand metric tons (1,101 thousand bales) of cotton fiber, valued at almost \$365 million, which suggests a rate of \$1.46/kg or \$0.64/lb. Cotton imports for the first 8 months (August–March) of MY 2008/09 were about 151 thousand metric tons or 660 thousand bales, a year-on-year decrease of 1.3% as a result of lower demand from the textile industry (Table 7).

Cotton imports for 2008/09 will probably decrease by about 8 percent as demand weakens. Post estimates Vietnam's 2008/2009 cotton imports at 230 thousand metric tons (1.012 million bales) due to lower demand from a cooling textile industry.

Table 7: Vietnam's cotton imports, MY2007/08 and 2008/09

	'2007/08	'2008/09
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	8/1/2007			8/1/2008		
	Quantity (mt)	Value (\$1,000)	Price (\$/mt)	Quantity (mt)	Value (\$1,000)	Price (\$/mt)
August	13,500	16,190	1,199	25,000	41,000	1,640
September	19,000	24,450	1,287	25,000	41,000	1,640
October	17,000	24,000	1,412	24,000	40,000	1,667
November	14,000	18,350	1,311	20,000	32,800	1,640
December	14,300	19,200	1,343	25,000	40,000	1,600
January	28,000	40,000	1,429	13,000	18,000	1,385
February	22,500	33,600	1,493	8,813	11,770	1,336
March	24,500	36,800	1,502	10,000	12,000	1,200
April	25,350	39,700	1,566			
May	30,000	47,000	1,567			
June	22,000	33,700	1,532			
July	20,000	32,000	1,600			
Total (Aug-March)	152,800	212,590	1,391	150,813	236,570	1,569
Total	250,150	364,990	1,459	230,000*		

Source: Customs Office and FAS estimates

* estimated data

Vietnam's Primary Cotton Suppliers

Table 8 provides estimates of Vietnam's cotton imports for calendar years 2005 to 2008. In 2008, Vietnam imported just over 291 thousand metric tons (tmt) of cotton, 37% more than the year prior. The United States remains the major cotton supplier to Vietnam with over 123 tmt, or 42% of Vietnam's total cotton imports. India ranked second, accounting for more than 51 tmt or 17% of the market share. Africa was the third largest supplier with a total of 47 tmt and a market share of 16%.

Table 8: Sources for Vietnam's Cotton Imports, 2005-2008

Countries	2005	2006	2007	2008
African	66,000	62,500	54,454	47,670
USA	39,000	37,771	66,713	123,970
Taiwan	n/a	n/a	15,278	7,000
India	8,500	34,720	26,790	51,780
Mexico	6,000	8,500	2,751	1,060
Indonesia	n/a	n/a	2,037	5,030
CIS	6,000	6,500	5,509	2,000
Brazil	n/a	n/a	5,202	17,400
Australia	2,500	2,800	1,962	900
South Korea	n/a	n/a	1,828	1,500
Pakistan	n/a	2,200	1,595	3,530
Iran	n/a	1,800	1,396	250
Syria	894	n/a	n/a	n/a
China	1,432	500	3,109	510
Turkey	n/a	n/a	983	112
Canada	n/a	n/a	502	32
Unknown	22,000	32,709	21,002	28,606
TOTAL	150,000	190,000	211,111	291,350

Source: Vietnam Customs, trade sources

Table 9: U.S. cotton exports to Vietnam

	2005	2006	2007	2008	2009 (Jan. - Jan.)
Quantity (mt)	37,967	36,701	66,713	125,013	3,034
Value (\$1,000)	46,647	45,864	88,216	192,603	3,675

Source: BICO, US Department of Commerce, U.S. Census Bureau, and Foreign Trade Statistics

CONSUMPTION

Vietnam's cotton consumption for 2008/09 is estimated to be slightly reduced due to lower demand from the garment and textile industry owing to the global economic downturn. Post revises domestic consumption for 2008/09 down to 235 tmt or 1,034 thousand bales. Domestic cotton consumption for 2009/2010 should increase by about 2% to 240 tmt or 1,056 thousand bales as the market for garment and textile products is expected to improve by late 2009/early 2010. (see table 1)

POLICY

Tariff on Cotton

Cotton has zero tariffs, but there is a 10% value added tax.

The Ministry of Trade and Industry (MOIT) has approved plans for garment & textile development to 2015 and orientation to 2020

On November 19, 2008, the MOIT issued Decision No.42/2008/QD-BCT to approve plans for the development of the garment and textile industry to 2015 and orientation to 2020. The plan has export targets for the garment and textile industry of \$12 billion by 2010, \$18 billion by 2015 and \$25 billion by 2020. There are also targets to increase jobs in the garment and textile sector with goals of 2.5 million added by 2010 and a further 3 million by 2020. Cotton lint production is expected to increase to 20 tmt by 2010, to 40 tmt by 2015 and up to 60 tmt by 2020. The main cotton growing areas will be in the North West, North East and the Tay Nguyen Central Highlands. Key targets of the plan are outlined in Table 10.

Table 10: Vietnam's Projections for the garment and textile industry to 2020

Description	Unit	2010	2015	2020
1. Export value	\$ million	12,000	18,000	25,000
2. Number of employees	Thousand person	2,500	2,750	3,000
3. Key products				
- cotton lint	1000 mt	20	40	60
- Fiber, polyester yarn	1000 mt	120	210	300
- all kind of yarn	1000 mt	350	500	650
- all kind of fabrics	million m ²	1.000	1.500	2.000
- Garment products	million piece	1.800	2.850	4.000
4. for domestic market	%	50	60	70

Vietnam approves strategy for garment and textile development through 2020

On March 14, 2008, Prime Minister Nguyen Tan Dung signed Decree 36/2008/QĐ-TTg to promulgate Vietnam's strategy for the development of the garment and textile industry to 2015 and 2020. Included are ambitious targets to grow the industry at increased production rates of 16-18% from 2008 to 2010 and 12-14% from 2011 to 2020. There is also provision in this scheme to increase local cotton production through capital investments in irrigation and other inputs so as to produce about 20 tmt of cotton lint in 2010; 40 tmt in 2015 and 60 tmt in 2020. With regard to exports, Vietnam expects an annual growth of 20% between 2008 and 2010, and continued growth at 15% annually between 2011 and 2020.

Biotech Cotton in Vietnam

It is still not legal to trade Bt cotton seeds in Vietnam as regulations to allow this have not yet been approved. Although the Ministry of Agriculture and Rural Development (MARD) has completed and reported draft regulations for field trials and biosafety management of biotech crops to WTO in January 2008 ([VM8005](#)), these regulations have still not been approved. Reportedly, however, as much as 80 percent of the cotton produced in Vietnam is Bt cotton. It is uncertain how farmers acquired the seeds as there is currently no legal trade of GM seeds.